



Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

December 26, 2000

Conditional Approval #438
January 2001

Mr. R. Gregory Barton
The Vanguard Group
Post Office Box 2600
Valley Forge, Pennsylvania 19482-2600

Re: Application by the Vanguard Group, Inc. ("Vanguard") to charter a national CEBA trust bank with the title of Vanguard National Trust Company, National Association, Valley Forge, Pennsylvania
CAIS Control Number 2000-NE-01-0023

Dear Mr. Barton:

The Comptroller of the Currency ("OCC") has reviewed your application to establish a new national CEBA trust bank with the title of Vanguard National Trust Company, National Association ("Bank"). On December 26, 2000, after a thorough evaluation of all data available to the OCC, we found that your proposal met the requirements for preliminary conditional approval.

This approval is granted based on a thorough review of all information available, including the representations and commitments made in the application and by the proposed Bank's representatives. We also made our decision to grant preliminary conditional approval with the understanding that the proposed national bank will apply for membership in the Federal Reserve System and will not be FDIC-insured.

This charter approval is subject to the following conditions:

1. The Bank shall be limited to those activities described in the application and conducted in accordance with the representations made in the application.
2. The Bank's initial Tier 1 capital, net of all organizational and pre-opening expenses shall be no less than \$2 million.
3. At all times, the Bank shall maintain a minimum of \$2 million in Tier 1 capital, and also shall maintain at all times capital that meets or exceeds the levels required under 12 C.F.R. 3 for an adequately capitalized bank.

4. The Bank and Vanguard must enter into a written binding agreement setting forth Vanguard's obligations to provide capital maintenance and liquidity support to the Bank, if and when necessary. The terms and provisions of this capital and liquidity maintenance agreement must be acceptable to the Bank and the OCC, and shall include a provision for collateral to support those obligations, if required by the OCC.
5. The Bank shall obtain prior approval from the OCC's New York Field Office before any significant deviation or change from the proposed operating plan occurs during the Bank's first three years of operation. The Bank must notify the New York Field Office at least sixty (60) days prior to any proposed significant deviation or change.
6. The Bank, Vanguard, and the Vanguard Group of Investment Companies, upon request by the OCC, shall provide the OCC access to, permit the OCC to examine, and provide the OCC with copies of all books and records, audit reports, and electronic records that accurately reflect the information in the books and records of the Bank, and any other information of, or concerning the Bank.
7. All transactions between the Bank and any affiliates, domestic or foreign, shall be conducted subject to the applicable provisions of 12 U.S.C. § 371c and c-1, or other applicable Federal law. The Board of Directors of the Bank annually shall review and approve the service agreements and any other transactions with domestic and foreign affiliates, including in particular any cost allocation, fee-sharing or tax-sharing provisions in such agreements or other transactions.
8. The Bank must notify all potential vendors in writing of the OCC's examination and regulatory authority under 12 U.S.C. § 1867(c). All final vendor contracts must stipulate that the performance of services provided by the vendors to the Bank is subject to the OCC's examination and regulatory authority. The provisions of 12 C.F.R. 9 would be applicable to any fiduciary activities contracted out to vendors.

Please be advised that the conditions of this approval are conditions "imposed in writing by the agency in connection with the granting of any application or other request" within the meaning of 12 U.S.C. § 1818 and, as such, are enforceable under 12 U.S.C. § 1818.

Please refer to the "Corporate Organization" booklet (enclosed) in the *Comptroller's Corporate Manual* for the instructions on organizing the Bank. The booklet contains all of the steps you must take to receive your charter. As detailed in the booklet, you may establish the corporate existence of and begin organizing the Bank as soon as you adopt and forward acceptable Articles of Association and the Organization Certificate to this office. As a "body corporate" or legal entity, you may begin taking those steps necessary for obtaining final approval, but you may not begin the business of banking until you fulfill all requirements for a bank in organization and you are granted final approval by the OCC.

Enclosed are standard requirements that must be met before the Bank will be allowed to commence business. Management must ensure that the applicable policies and procedures are established and adopted by the board of directors before the Bank begins operation. Applicable standard requirements also must be satisfied before the Bank will be allowed to commence business. In addition to the standard requirements, the Bank must meet the following requirements prior to opening:

1. The Bank must submit to the OCC for review and approval a complete description of the Bank's final information systems and operations architecture as well as the information systems risk assessment and management plan. This should include a schematic drawing and discussion of the following items:

vendors and vendor contracts; vendor management policy; security policies; security mechanisms; security testing plans; customer, vendor, and employee authentication; personnel; business resumption plans; internal controls; and internal audit plans.

2. The Bank must have performed an independent security review and test of its electronic banking platform. The scope of the review should encompass all access points, including the Internet, Intranet, or remote access. The Bank must have this review performed regardless of whether the platform is operated in-house or by one or more third-party service providers. If the Bank outsources the technology platform, it can rely upon testing performed for the service provider to the extent that it satisfies the scope and requirements listed herein. The review must be conducted by an objective, qualified, independent source ("Reviewer"). The scope must cover the adequacy of physical and logical protection against unauthorized internal and external access including individual penetration attempts, computer viruses, denial of service, and other forms of electronic access. By written report, the Reviewer must confirm that the security measures, including the firewall, have been satisfactorily implemented and tested. The report must critique the effectiveness of security policies and controls and confirm, with reasonable certainty, that unauthorized internal or external data and network access or access attempts will be detected and recorded. As part of its decision to grant final charter approval, the OCC will consider the results of the report as well as any subsequent actions by the Bank or service provider to implement any recommendations or to remedy any noted security or control deficiencies.

In addition, the Bank must comply with the OCC's regulation on Privacy of Consumer Financial Information and the privacy requirements of the Gramm-Leach-Bliley Act of 1999 ("GLBA"). Prior to or on the effective date of the privacy provisions of GLBA, the Bank must disclose its privacy policies and practices to its customers.

Please be aware that the trust officers and staff should become thoroughly familiar with "Fiduciary Powers of National Banks and Collective Investments" at 12 C.F.R. 9 and 12 C.F.R. 5.26. Management is reminded that 12 C.F.R. 5.26 requires a national bank which already has approval to engage in fiduciary activities to provide written notice to the OCC when commencing fiduciary activities in a new state. Also, in addition to the independent annual audit requirement referenced in the standard requirements, the Bank will need to develop and implement a fiduciary audit program as required by 12 C.F.R. 9.

The OCC poses no objection to the following persons serving as executive officers and directors as proposed in the application.

| | |
|-----------------------|------------------------------|
| John J. Brennan | President/CEO/COB |
| R. Gregory Barton | Director/SVP/General Counsel |
| Michael S. Miller | Director/SVP |
| James H. Gately | Director/SVP |
| F. William McNabb III | Director/SVP |
| Ralph K. Packard | Director/CFO |
| Raymond J. Klapinsky | Director/SVP/Secretary |
| Ian A. MacKinnon | Director/SVP |
| George U. Sauter | Director/SVP |
| Richard D. Carpenter | Treasurer |
| Richard W. Stevens | SVP |
| Jack G. Brod | SVP |
| Joseph F. Dietrick | SVP |
| Donald R. Williams | Trust Officer |

Not all background checks requested by the OCC have been received yet. Although we have decided not to delay action pending receipt of those responses, the OCC may consider remedies available to it if adverse or previously withheld information is received.

You are reminded that additional executive officers are subject to the OCC's prior review and clearance. Also, for a period of two years after the Bank has opened for business, the OCC must review and have no objection to any new executive officer or director prior to that person assuming such position.

The OCC will send to you under separate cover an appropriate set of OCC handbooks, manuals, issuances, and selected other publications.

Vanguard National Trust Company, N.A.

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Please direct any questions concerning this preliminary conditional approval to Senior Licensing Analyst Sandya Reddy in the Northeastern District Office at (212) 790-4055, or to me at (202) 874-5060.

Sincerely,

-signed-

Robert A. Sihler
Senior Licensing Analyst
Licensing Department

Enclosures: "Corporate Organization" Booklet
Minimum Policies and Procedures
Standard Requirements